UNITED
NATIONS

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General Assembly

Distr.
GENERAL

A/AC.237/73
11 August 1994

Original: ENGLISH

INTERGOVERNMENTAL NEGOTIATING COMMITTEE
FOR A FRAMEWORK CONVENTION ON CLIMATE CHANGE
Tenth session
Geneva, 22 August - 2 September 1994
Item 4 (a) of the provisional agenda

MATTERS RELATING TO ARRANGEMENTS FOR THE FINANCIAL MECHANISM AND FOR TECHNICAL AND FINANCIAL SUPPORT TO DEVELOPING COUNTRY PARTIES

IMPLEMENTATION OF ARTICLE 11 (FINANCIAL MECHANISM), PARAS. 1-4

Agreed full incremental costs

Progress report by the interim secretariat

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I. INTRODUCTION

A. Committee mandate

1. At its ninth session, the Committee requested the interim secretariat to continue monitoring work carried out in the area of "agreed full incremental costs" taking into account also views expressed by Governments, and to keep the Committee informed of progress achieved.

B. Scope of the progress report

2. The report refers to elements relevant to "agreed full incremental costs" found in issues related to the financial mechanism, provides information on work carried out within the framework of the PRINCE Programme and mentions other activities in this area.

C. Possible action by the Committee

3. The Committee may wish to take note of this report and indicate what further work may be needed in this area.

II. BACKGROUND

4. "Agreed full incremental costs" are referred to in Article 4 (Commitments) of the Convention. Article 4.3 provides that the developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources, including for the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs of implementing measures that are covered by Article 4.1 and that are agreed between a developing country Party and the international entity or entities entrusted with the operation of the financial mechanism. (This commitment follows another for the funding of the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12.1.)

5. The approach to calculating agreed full incremental costs will be important in determining the amount of funding to be received by the developing country Parties through the financial mechanism in support of their implementation of activities listed in Article 4.1. These will represent an important part of the implementation of the Convention as a whole. Incremental costs are thus relevant to financing policies, to cost-effective implementation of the Convention, and therefore to the determination of funding needs for the financial mechanism.

III. VIEWS EXPRESSED BY GOVERNMENTS

6. The issue of "agreed full incremental costs" was discussed at the eighth and ninth sessions of the Committee. It is addressed in a number of written submissions from Parties or other member States contained in documents A/AC.237/Misc.38 and A/AC.237/Misc.38/Add.1. The words "incremental costs" appear in document A/AC.237/Misc.38 in papers no.1 and no.2 of section A, paper no. 2 of section B and papers no. 1, 2, 3, 4, 5, 8 and 10 of section C, as well as in papers no. 1 and 2 of document A/AC.237/Misc.38/Add.1. It should, however, be noted that several of these submissions were made prior to the adoption of conclusions on this issue at the ninth session. Special attention is therefore drawn to the discussion of incremental costs with respect to adaptation measures in paper no. 2, section B of document A/AC.237/Misc.38 submitted by Trinidad and Tobago on behalf of the Alliance of Small Island States (AOSIS) and to the suggestion of a seminar discussion on incremental costs in paper no. 8 of section C of the same document submitted by Sweden, which were both submitted after the ninth session.

IV. ACTIVITIES CARRIED OUT IN THE AREA OF "AGREED FULL INCREMENTAL COSTS"

A. The PRINCE programme

7. The Program for Measuring Incremental Costs for the Environment (PRINCE) was initiated and is managed by the Administrator's Office of the Global Environment Facility (GEF). Advice in its operation is provided by a Policy Advisory Group (in which the FCCC Secretariat participates) and an Implementation Advisory Group. PRINCE studies the technical aspects of incremental costs, the costs actually incurred as a result of measures to protect the global environment, as distinct from financing policy in regard to those costs.

8. Activities undertaken under the PRINCE programme fall into three categories:

(i) Methodological studies;

(ii) Case studies or field tests; and

(iii) Training and outreach.

9. Methodological studies: Most studies have been and will continue to be in the climate change and biodiversity areas, with an initial emphasis on project and sector level work. Some work will also be undertaken on international waters and ozone depletion (two other focal areas of the GEF) and on projects with simultaneous benefits for more than one focal area.

10. In the area of climate change, methodological studies will be conducted in the forthcoming period with regard to:

(a) The electric power sector;

(b) The urban transport sector;

(c) Renewable energy technologies;

(d) Carbon sinks;

(e) Adaptation measures; and

(f) Economy-wide incremental costs.

11. In cross-cutting areas, methodological studies are proposed with respect to:

(a) The incremental costs of capacity building;

(b) Processes on reaching agreement on incremental costs; and

(c) Discounting.

12. Case studies in climate change: Case studies have been conducted by power utilities in Latin America. GEF pilot phase and pipeline projects are proposed to be used as additional case study material.

13. Training and outreach: It is proposed that the results of the proposed methodological studies will be widely disseminated through training programmes and in the form of working papers which will eventually be compiled in a compendium.

14. Training packages will be developed, using appropriate combinations of printed, computer assisted and videotaped materials. GEF, in cooperation with the Implementing Agencies will develop operational guidance for their use using technical outputs of the programme.

15. Regional "centres of excellence" in developing countries collaborate with GEF on the PRINCE programme in all its activities. GEF intends to establish long term relationships with these centres.

16. Information on the incremental cost framework will be disseminated in recipient countries by the United Nations Development Programme (UNDP), with the collaboration of PRINCE staff in the preparation of training materials for government negotiations. The development of training manuals, expert systems on various issues related to incremental costs and of global environmental modules for addition to existing curricula on power system planning courses will be undertaken in collaboration with developed and developing country institutions.

B. Other activities relevant to "agreed full incremental costs" brought to the attention of the interim secretariat

17. The office within UNDP that acts as the focal point for the GEF has commissioned a consultancy on the application of the incremental cost approach to capacity building activities.

18. A study entitled "The Costs of Incremental Costs, Consequences for GEF/UNDP Project Evaluation" has been prepared by the School of International and Public Affairs of Columbia University, New York, USA.

19. A study entitled "Incremental Costs and The Global Environment Facility, A WWF Assessment", authored by David Reed and Amanda Wolf, has been published by the WWF International Institutions Policy Program, World Wide Fund for Nature (WWF), Washington DC, USA.

20. A study entitled "Reframing the Green Window: An analysis of the GEF Pilot Phase Approach to Biodiversity and Global Warming and Recommendations for the Operational Phase" has been published by the Conservation International and the Natural Resources Defense Council, Washington DC, USA.

21. An article entitled "Additional Funds, Incremental Costs and the Global Environment" by Andrew Jordan and Jacob Werksman, is to appear in the Review of the European Community and International Environmental Law, published by the Foundation for International Law and Development, London, United Kingdom.

22. A significant number of studies and documents have also been prepared with respect to the application of the incremental cost approach to the areas of ozone depleting substances and the conservation of biodiversity.